Precious Metals Workgroup

treasurer.utah.gov/gold

Meeting Minutes (Long)

May 29, 2024 | 3:30 p.m. - 5:00 p.m.

IN-PERSON
Capitol Board Room
350 N. State Street, Second Floor
Salt Lake City, UT 84114

LIVESTREAM
Website: treasurer.utah.gov/gold
Recording: https://youtu.be/AEQMLabN2Uo
(Committee members join via Zoom)

Workgroup Members Present:

- State Treasurer Marlo Oaks
- Representative Ken Ivory
- Representative Jefferson Moss (Virtual)
- Dan Burton, Utah Office of Attorney General
- Christian Chelak, Office of U.S. Senator Mike Lee (Virtual)
- Gary Crittenden
- Sophia DiCaro, Governor's Office of Planning and Budget
- Kevin Freeman
- Hugh Hannesson
- Howard Headlee, Utah Bankers Association
- Randy Quarles

1. Welcome and Introductions

Treasurer Oaks called the meeting to order at 3:30 p.m. Committee members and guests provided quick introductions. Full biographies are available in the meeting materials.

2. Purpose and Objectives of the Workgroup

Treasurer Oaks explained that the Legislature passed H.B. 348 during the 2024 General Session allowing the treasurer to invest up to 10% of Utah's rainy day funds in precious metals. It also requires the State Treasurer to conduct a study analyzing the role of precious metals in augmenting, stabilizing, and ensuring the economic security and prosperity of the state, the families and residents of the state, and businesses in the state, and then report back to the Revenue and Taxation Interim Committee during the October interim session with recommendations for legislation. This workgroup was formed to assist with the study.

Treasurer Oaks said this is the first of five meetings where the workgroup will convene between now and the October interim session. During these meetings, we will hear from a variety of experts to explore the topic and drill down on the problems we are trying to solve, potential legislative solutions, and any challenges stemming from those solutions.

During the first meeting, workgroup members will receive an overview of the gold industry in Utah, as well as the global economic and financial landscape, including the evolving nature of currency, the current economic state and implications for world currencies, geopolitical risks and implications for the dollar, and market forecasts for gold and silver. Kevin Freeman will provide an update on a risk analysis he performed for the state a few years ago.

During the second meeting, workgroup members will discuss precious metals-backed currency platforms, including the value proposition of those platforms and why and to what extent state involvement is needed.

During the third meeting, workgroup members will explore potential regulatory frameworks needed for precious metals currency platforms. The discussion will include the role of capital gains taxes in this discussion, banking regulations, and other legal and security implications.

During the fourth meeting, workgroup members will discuss the potential for the creation of a precious metals circular economy in Utah.

During the last meeting, workgroup members will summarize the key takeaways from the previous meetings and discuss legislative recommendations for the 2025 general session and beyond.

Workgroup members are invited to weigh in on what will be covered during the meetings as well as the experts we should bring into these discussions.

Representative Ivory explained that this workgroup is part of an effort that began in 2011. At that time, Utah's number one source of revenue was federally-sourced funds. The state conducted a risk analysis and held seminars as part of its work on contingency planning.

Representative Ivory said in preparing for this meeting, he came across a resolution that the U.S. Senate passed unanimously March 24 recognizing the national debt as a threat to national security and just laying out many of the issues that concern us as a state. As of January 2024, the total public debt is $34 trillion. In 2023, the interest alone was $660 billion and increasing and the deficit was $71.7 trillion. The resolution indicates that the Federal Hospital Insurance Trust fund and the old age Survivor Insurance Trust Fund will go to zero in 2031 and the disability trust fund will be depleted in 2034. Representative Ivory said that critical to what this workgroup is looking at, the resolution points out that China and the European Union are developing alternative payment systems to weaken the dominant position of the United States dollar as a reserve currency. Representative Ivory said the state's risk analysis should consider how we prepare for those risks, particularly in a health and human services context where 70% of the funding for the most vulnerable in Utah is funded by a source that is devaluing at 8-10% a year.

Representative Ivory said that while the U.S. Senate unanimously passed the resolution, they do not have the political will to address the issue. However, in Utah, we're able to get things done. This workgroup will consider how the state can meet the citizen's needs and are there sound money alternatives that might help us moving forward.

Representative Ivory said he is excited to hear from Brian Somers. He indicated that he was astounded to realize that Utah's number one export is gold by more than seven times. Additionally, the presence of refineries and the Brinks vaulting systems in Utah could help position us to take advantage of what the world is now doing and moving from dollars to precious metals. Representative Ivory thanked the workgroup for exploring this important issue.

Treasurer Oaks introduced Brian Somers, president of the Utah Mining Association.

3. Gold Industry in Utah

a. Presentation by Brian Somers, Utah Mining Association

Brian Somers explained that Utah Mining Association was founded in 1915 and is one of the older industrial organizations in the state, representing most of the large mine operators in the state and a number of service companies that work in the mining industry. Mr. Somers said that part of his presentation will help workgroup members understand what an important industry mining has been for the state. Mr. Somers highlighted the historical roots of mining in Utah.

Mr. Somers said that in Utah fossil fuels account for about 90% of our electricity production. The mining, oil, gas, and energy sectors combined contribute almost $23 billion in combined GDP to the Utah economy, which is about 10% of our state's GDP and about 20% actually of our state's tax revenue. Additionally, they account for 62,000 combined direct and indirect jobs with wages that are almost 51%

higher than the Utah average. On average, the highest paying job you can get in Salt Lake City is in the mining industry.

Mr. Somer said that the mining sector alone generated about $4.7 billion in mineral production in 2022. Utah was ranked eighth nationally for Nonu mineral production and 12th nationally for coal production.

Mr. Somers said a recent study by the Fraser Institute, a Canadian think tank, surveyed mining industry executives about their preferred global mining locations. In this survey, Utah emerged as the top mining jurisdiction in the world. The ranking was based on two indexes: the Investment Attractiveness Index, which assesses the potential profitability of mining in various regions, and the Policy Perception Index, which evaluates the friendliness of public policies and the regulatory environment for mining. Utah ranked first in both indexes, surpassing well-known mining regions such as Nevada, Saskatchewan, and Western Australia. Mr. Somers discussed the major commodities produced in Utah, which come from all over the state. He said Utah is fortunate in that we have a very diverse mineral estate.

Mr. Somers discussed Utah's precious metals production, focusing on gold, silver, platinum, and palladium. Utah's primary mining district is the Rio Tinto Kennecott Bingham Canyon mine, which produces these four metals. Gold and silver are refined locally, while platinum and palladium are sent elsewhere for further refining. Additional gold is mined in the Tintic District's Eureka mine and the West Desert's Kiewit mine. The Trixie mine, a historic mine in the Tintic District, was revived about four years ago and recently acquired by a Canadian company for $200 million. The Desert O mine also produces gold, although its operations fluctuate with global commodity prices. Challenges include the remote locations of these mines, which lack infrastructure.

Mr. Somers addressed a question about the difference between rare earth metals and Utah's current production of precious metals. Rare earth metals, found in the bottom row of the periodic table, are processed in Utah through secondary processing. Minerals, primarily monazite from titanium and zirconium mining in states like Georgia and Florida, are sent to a uranium mill in southeastern Utah. There, uranium and thorium are extracted for productive uses, and the rare earth elements are isolated. Although Utah doesn't produce these minerals, it plays a crucial role in their processing, which is more advanced than other parts of the U.S. This processing is significant given China's dominance in the rare earth market. Rare earth metal production does not overlap with Utah's current precious metal production, but many mineral deposits often contain multiple types of minerals.

Mr. Somers emphasized the importance of including all critical minerals in long-term plans for Utah and the country, highlighting vulnerabilities in supply chains controlled by geopolitical adversaries like China, Russia, and Iran. He contrasted this with less concerning imports, such as aluminum from Canada. He then detailed Utah's precious metals production, primarily from the Rio Tinto Kennecott mine, which processes low-grade porphyry deposits to extract copper, gold, silver, platinum, and palladium. The ore is concentrated, smelted, and refined in multiple stages, with the final products being 99.99% pure copper and refined gold and silver. Other metals like molybdenum, platinum, and palladium are sent elsewhere for further processing. Additionally, the Trixie and Desert Hawk mines use heap leaching to extract gold, which is refined both locally and at external facilities. Utah has two refineries: Rio Tinto Kennecott and Asahi Refining, the latter handling gold from various sources including international imports.

Mr. Somers addressed a question about why unrefined gold is sent here for processing. He said unrefined gold is sent to Utah for processing primarily due to expertise and scarcity of refineries. Refining precious metals like gold and silver requires specialized knowledge to achieve the high purity needed for investment purposes. Additionally, there are few refineries available, making location and proximity to mining operations significant factors. For example, the U.S. has only two active copper smelters, with a third potentially reopening in Arizona. This scarcity of facilities drives the decision to send unrefined gold to Utah for processing.

Mr. Somers addressed a question about the biggest constraints faced by the refining industry, particularly for Rio Tinto. He explained that while Rio Tinto's smelter has capacity and can take concentrate from other operators, economic factors often make it cheaper to send concentrate to China for refining. This is despite the logistical challenges and lack of environmental and labor protections in China. Federal regulations, safety and environmental standards, and labor costs in the U.S. contribute to the higher domestic refining costs. As an example, Rio Tinto's resolution mine in Arizona faces such high costs and federal permitting issues that it would be cheaper to ship the copper concentrate to China for refining rather than to their own smelter in Utah. This economic disparity poses significant challenges for domestic processing.

Mr. Somers addressed a question about whether mining only occurs on private land or if it is allowed on federally-controlled land. He explained that mining operations occur on both private and federally-controlled land. The Rio Tinto Kennecott mine and most of the Trixie mine are on private land, which is relatively unique. The Desert Hawk mine, however, operates on a mix of private land, state land, and Bureau of Land Management (BLM) land. Federal permitting can be challenging, often depending on the commodity's demand and controversy. The current administration has permitted only two mines in 3.5 years nationwide, which is insufficient to meet demand and increase mineral production. Moreover, more large mines have been taken offline than permitted, indicating a lack of support for mining despite claims to the contrary.

Mr. Somers noted significant exploration activity across Utah involving various commodities, often co-located with critical minerals. The presence of critical minerals can expedite federal permitting processes due to grants and quicker approvals, although Mr. Somers argued that all necessary minerals should be considered critical. He criticized the federal government's arbitrary lists of critical minerals, which can be inconsistent.

Mr. Somers highlighted that Utah's primary metal exports are valued at $7.2 billion, making up 41.2% of the state's total exports, with unrefined gold forming a significant portion. Most of this gold appears to be sold to the UK, though Mr. Somers suspects it is sold through the London exchange rather than being physically transported due to logistical challenges.

A recent Ken Gardner Institute report detailed Utah's domestic gold production at approximately 144,000 troy ounces worth $261 million in 2022, with substantial economic impacts. Additionally, Utah refines a large amount of imported gold, nearly 2.2 million troy ounces valued at almost $3 billion. Mr. Somers expressed skepticism about some economic models used in the report but confirmed the overall positive economic impact. Mr. Somers concluded by emphasizing Utah's leading position as a mining jurisdiction.

4. Economic and Financial Landscape

At Representative Ivory's request, the order of the agenda was adjusted. Kevin Freeman presented before Luke Gromen's presentation.

a. Update of Utah Risk Analysis by Kevin Freeman

Representative Ivory introduced the topic and discussed the establishment of the Federal Funds Commission in Utah, now part of the Federalism Commission, to analyze and address the state's dependence on federal funds and assess associated risks. They issued a Request for Proposals (RFP) for a risk analysis, which was conducted by Kevin Freeman, an expert on economic risk. Mr. Freeman's analysis, completed in 2016, aimed to project worst-case scenarios for Utah's future economic risks. Representative Ivory asked Mr. Freeman to summarize the current situation compared to his findings from 2016, highlighting the importance of understanding potential economic vulnerabilities over the past eight years.

Kevin Freeman presented his January 2016 report, covering fiscal, currency, cyber, capital markets, and global market risks. His background includes being an investment manager, holding a Chartered Financial Analyst (CFA) designation, and building Templeton's private client group, managing $2.5 billion from

1992 to 2000. He became an economic warfare expert for the Pentagon after identifying unusual financial market activities in 2008, such as credit default swaps and naked short selling.

Mr. Freeman explained that his 2016 report concluded that the U.S. debt path is unsustainable. He examined various threats, including solar storms and cyberattacks, but identified currency as a major target in enemy warfare doctrines. While the success of such an attack is uncertain, it remains a significant risk. Mr. Freeman said he updated his work to identify five undeniable economic truths.

- First, the debt path is undeniably unsustainable. Figures from Jerome Powell, the Office of Management and Budget, and the Congressional Budget Office confirm this bipartisan conclusion. When Freeman published his book "Pirate Money" in June 2023, the U.S. national debt was $32.1 trillion. By May 2024, it had increased to $34.7 trillion. Such growth is unsustainable, as interest payments will soon consume half of all federal tax revenues. The Economist predicted that if the Federal Reserve maintains current rates, annual interest payments will reach $1.6 trillion within a year. Projections indicate a $54 trillion debt over the next decade and $100 trillion in projected deficits over the next 30 years.
- Second, other nations are targeting the U.S. currency. Vladimir Putin has aimed to challenge the dollar since 2006. In 2008, Igor Panarin predicted the collapse of the dollar due to economic decline and moral degradation. Despite initial skepticism, efforts to displace the dollar have intensified, especially since Xi Jinping's rise to power in 2013. Foreign Affairs and CNN have acknowledged these efforts, with countries like Russia and China actively working to de-dollarize their economies.
- Third, the financialization of the U.S. economy since 1971 has increased the wealth gap. The Cantillon effect benefits those closest to money creation, while the average American struggles with inflation. This growing wealth gap mirrors the conditions that led to the French Revolution.
- Fourth, governments plan to weaponize currency through central bank digital currencies (CBDCs). Entities like the IMF, Bank of International Settlements, and the World Economic Forum advocate for digital currencies to exert greater control over monetary policy and individual behavior. President Biden’s executive order 14067 emphasizes using money to advance DEI and ESG goals. In China, social credit scores are linked to the digital yuan. While there is congressional opposition to CBDCs, the intention to weaponize currency remains clear.
- Fifth, money is undergoing major changes. Innovations like tap-to-pay, Venmo, Zelle, and PayPal, along with CBDCs, signify a transformation in how money is used globally. These five undeniable truths led Freeman to develop the concept of "pirate money," advocating for state-level use of gold and silver as transactional money, offering an alternative monetary system.

Mr. Freeman recommended that Utah and other states consider making gold and silver transactional through electronic transfer capabilities, creating a parallel monetary system to the Federal Reserve. He said his approach ensures financial resilience and offers an alternative to the unsustainable trajectory of current debt and monetary policies.

b. Presentation by Luke Gromen

Luke Gromen began his presentation by addressing the importance of gold. He highlighted the current situation, stating that the world is experiencing the first global sovereign debt bubble in 80 to 100 years, primarily centered in the West. The data he presented included two lines: the orange line representing developed markets and the green line representing emerging markets, specifically their central government debt to GDP ratios.

Mr. Gromen explained that while emerging market debt crises were common in the eighties, nineties, and early two-thousands, the developed economies' debt levels, indicated by the orange line, have now surpassed those levels. Such high debt levels have not been seen since the immediate aftermaths of World War I and World War II. Historically, these situations have been resolved in two ways over the past 120 to 140 years: through default or restructuring of the debt, or by inflating the debt away. He emphasized that the major inflations in history have not stemmed from supply chain interruptions or demand

fluctuations, as seen in the U.S. over the past 40-50 years, but rather from over-indebted governments losing sufficient foreign financing and resorting to central bank money printing to maintain nominal debt solvency. He noted that the U.S. has been in this situation for several years.

Mr. Gromen cited a study by Hirshman Capital, using data from Reinhart and Rogoff, which found that since 1800, 51 out of 52 countries with gross government debt to GDP ratios over 130% have defaulted through restructuring, devaluation, high inflation, or outright default. Japan is the only exception, but even those who previously cited Japan as a positive example have become quieter in recent months.

He explained that countries typically do not default nominally but through the decline in the real value of the currency in which the bonds and interest are repaid. In November 2013, the People's Bank of China announced it would no longer increase its reserves, effectively ceasing to grow its holdings of U.S. treasuries. This decision marked a significant shift, with global central banks stopping the purchase of U.S. treasuries a decade ago, even as U.S. federal debt continued to rise.

This lack of sufficient treasury purchases while U.S. federal debt increases has led to a U.S. balance of payments vicious cycle. As U.S. deficits rise, the country borrows more from the global private sector, which drives up the dollar and interest rates, slowing the global economy and reducing U.S. tax receipts. This cycle continues, exacerbating the situation.

Mr. Gromen presented data showing that U.S. entitlements and treasury interest expenses consume nearly 100% of tax receipts, leaving little room to cut spending without severe consequences. This situation inevitably leads to inflation unless there is a significant productivity increase. He compared the current U.S. fiscal situation to historical precedents, noting that the U.S. is starting Cold War 2.0 with a debt service level higher than its defense budget, a position similar to the Soviet Union's in the late 1980s. He argued that the U.S. would likely resort to printing money to manage interest rates and maintain defense spending, leading to inflation. He showed that the price of gold has significantly outperformed long-term U.S. treasuries since global central banks stopped increasing their holdings of treasuries in 2014. This outperformance is attributed to central banks selling treasuries and buying gold.

Mr. Gromen discussed the shift in global oil markets, with an increasing share of oil transactions occurring in non-dollar currencies, particularly among BRICS nations. This trend reduces the need for countries like China to hold U.S. treasuries, impacting global demand for the dollar. He concluded by warning that if the U.S. follows Japan's path in terms of debt levels, it will likely experience high inflation similar to Argentina. The Fed's balance sheet could expand significantly, leading to substantial inflation. Mr. Gromen emphasized that gold remains a valuable asset in this environment, likely to continue outperforming long-term U.S. treasuries and Western sovereign bonds.

In summary, Mr. Gromen's presentation underscored the precarious nature of the current global sovereign debt situation, particularly in the U.S., and highlighted the potential for significant inflation, making gold a prudent investment.

c. Q&A with Workgroup Members

Representative Ivory said the outlook Mr. Gromen described is quite concerning regarding what lies ahead. Representative Ivory said about 30% of state receipts come from federally sourced funds, and this figure doesn't include funds that go directly to counties or direct payments to individuals, such as social security. Representative Ivory asked Mr. Gromen what implications this has for the state given his comments about treasuries and interest rates and how the state should manage this dependency on federal funds, considering it's our primary revenue source, amid the anticipated financial challenges. He also asked about the risks involved, and how we can best prepare to weather the storm ahead.

Luke Gromen explained that federal obligations should be broken down into two main categories: Social Security and Medicare/Medicaid. Social Security involves cash payments with a cost of living adjustment (COLA). Although recipients will receive their payments, the COLA may not keep pace with real

inflation, causing recipients to fall slightly behind over time. However, this is not an immediate issue, and Utah citizens will likely receive their owed amounts in dollar terms.

The more complex issue lies with Medicare/Medicaid, where obligations are not simply monetary but involve providing finite, tangible goods and services such as medical treatments and equipment. As the government prints more money, the cost of these goods and services will rise, creating a situation similar to the Weimar Republic's hyperinflation with gold. The government will struggle to keep up with these rising costs, potentially leading to delays in services.

Gromen suggested that to mitigate these challenges, states like Utah could set aside funds in advance to maintain a higher quality of life. Attracting more doctors through favorable tax policies could improve the supply-demand ratio for medical services. These proactive measures could help Utah better navigate the potential difficulties associated with increasing federal obligations.

Mr. Crittenden inquired about the charts that indexed the performance of the dollar against bond prices. He asked whether the analysis changes when considering equities and investment in equities and specifically how equity performance would compare on the same charts relative to gold and silver.

Mr. Gromen explained that for managing funds, it is crucial to recognize that we are witnessing the early stages of a significant shift. The global bond market is roughly $130 trillion, with the U.S. Treasury market comprising about $25 trillion of that. In comparison, the U.S. stock market, which accounts for about 70% of global equity market cap, is approximately $65 trillion. The gold market is around $14 trillion, and the Bitcoin market is about $1.4 trillion.

Mr. Gromen suggested that what we are seeing is the beginning of the market's recognition of the bubble in long-term U.S. Treasury bonds, which are part of the first global sovereign debt bubble in 100 years centered in developed markets. He mentioned that if he showed a chart of the S&P 500, NASDAQ, or Bitcoin against long bonds, they would all display a similar "hockey stick" pattern, indicating significant upward movement. This reflects the market's rational response to the bond market's pressure, as it reallocates into equities, gold, and Bitcoin.

Mr. Gromen explained that it is not just about gold but about preserving the purchasing power of funds relative to needed goods and services. Equities and gold perform this function better than long bonds, and Bitcoin, despite its volatility, might outperform both. Mr. Gromen highlighted the alarming rise in interest expenses and referred to Niall Ferguson's observation that any great hegemonic power whose debt service surpasses its military spending doesn't remain a hegemonic power for long. This was true for historical powers like Habsburg Spain, ancient régime France, and the British Empire, and now it applies to the United States. He attributed the rapid acceleration of these issues partly to the Federal Reserve's aggressive rate hikes.

Representative Ivory inquired further, asking Mr. Gromen how he rates the risk given that all asset classes are experiencing significant upward movement ("hockey sticking"). He pointed out that although they are all accelerating due to the pressure on bonds, equities, gold, and other assets have different risk profiles. He asked how to allocate that risk from the perspective of a state investor.

Mr. Gromen responded by suggesting that, as a state investor, the traditional 60/40 portfolio model (60% equities and 40% bonds) might need adjustment. He advised that while short-term T-bills are fine and he personally owns many, yielding a stable 5.25% coupon for three-month paper, the portion of the 40% in middle and longer-duration bonds should be reconsidered.

Mr. Gromen recommended avoiding all sovereign bonds, whether from the United States, the UK, or Europe, in the middle to long-term duration. Instead, he suggested replacing these with gold, complemented by a small 1-2% allocation to Bitcoin due to its high volatility but potential for significant returns. He emphasized that the current bubble is in bonds, and we are entering a period of sustained

negative real interest rates, which will erode the purchasing power of bonds. Mr. Gromen concluded that this approach would be prudent for a state investor to consider.

Representative Ivory, reflecting on his experience on the Revenue and Taxation Committee, noted that various groups repeatedly requested increased tax percentages to cover rising costs, as inflation eroded the value of these funds. He asked Mr. Gromen to explain in layman's terms what inflation might look like over the next 5 to 10 years and, specifically, the potential impact on spending for essential items such as school books, asphalt, and other hard materials.

Mr. Gromen responded by offering two perspectives on the issue. He explained that the answer depends on the assumptions made and provided a framework for understanding the situation.

First, he highlighted that since the Great Financial Crisis, U.S. federal debt has grown at an average annual compounded rate of 8%. To address this debt growth, inflation needs to be high enough to offset it, while paying a coupon below the debt growth and inflation rate.

Second, he referenced a report he wrote for clients in April 2021. He recalled a white paper from the BlackRock Investment Institute in August 2019, authored by notable figures like Stan Fisher, Philipp Hildebrand, and Jean Boivin. The paper suggested that in the next crisis, with central banks having little room to maneuver, fiscal deficits would stimulate the economy, and central banks would cap rates to manage the situation. This approach was seen during the COVID crisis, which occurred seven months later.

In April 2021, Mr. Gromen observed another stimulus package that aligned with the BlackRock white paper's strategy. He noted that with the U.S. debt-to-GDP ratio at 120%, the last time the Federal Reserve managed to raise rates without disrupting the Treasury market was when the debt-to-GDP ratio was 70-80%. To bring the current ratio down to 70%, similar to post-World War II levels, would require significant inflation.

Mr. Gomen provided historical context, noting that from 1946 to 1951, the U.S. reduced its debt-to-GDP ratio from 110% to 55% by keeping bond yields low while experiencing inflation rates around 15%. Applying a similar approach today, he calculated that to reduce the debt-to-GDP ratio from 120% to 70% over five years, assuming an 8% annual debt growth, would require real interest rates to be negative 12% to 15%. This means inflation would need to be around 15% with interest rates at 3%, or inflation at 18% with rates at 3%, for 3 to 5 years. Mr. Gromen indicated that the U.S. could face secular high inflation for longer than currently anticipated to manage the debt situation effectively.

Joseph Cavatoni from the World Gold Council expressed his gratitude for being included in the session, noting that the discussions were highly informative and aligned with many of the Council's views. Rather than posing a question, he offered three key insights that could be useful to the committee and participants.

First, Mr. Cavatoni referenced Luke's point on gold allocation, mentioning that the World Gold Council regularly works with states like Alaska, Ohio, and Texas to produce a simplified case for gold. This case outlines gold's long-term return profile, diversification benefits, correlation behavior, and liquidity advantages. The Council can demonstrate, using hypothetical portfolios, how adding gold can improve returns, reduce drawdown risk, and enhance risk-adjusted returns. Mr. Cavatoni committed to sending this case for gold to the committee for further consideration.

Second, Mr. Cavatoni highlighted the Council’s annual survey on central banks, which has included over 60 central banks for the past three years. The survey indicates a trend of reducing dollar and euro exposure over the next five years, with gold increasingly filling a role as an alternative. Mr. Cavatoni expressed interest in discussing with Mr. Freeman the alternatives to the dollar, noting that gold is a significant part of this trend. He mentioned that their latest report would be available in the next two

weeks and offered to share it to provide insights into why emerging market central banks have been adding gold to their reserves for the past 14 years.

Third, Mr. Cavatoni discussed the Council's quarterly demand report, offering to present it to the committee. This report helps explain why gold prices continue to rise, highlighting the dynamics of central banks and eastern investors facing their own economic challenges. He noted the significant gold consumption by the People's Bank of China and the increasing interest from investors concerned about the failing property market, underperforming equity market, and the devaluation of the renminbi. These factors are driving up the gold price.

Mr. Cavatoni concluded by stating that these tools and reports could quickly help the committee understand the long-term price trajectory and benefits of gold investment, and he looked forward to further discussions.

Representative Ivory had a few follow-up questions for Mr. Cavatoni based on the discussion. Acknowledging the time constraints, he asked about state-level allocations to precious metals and other alternatives to the dollar. He was interested in understanding how larger entities, such as sovereign funds, are practically using these alternatives. Specifically, he inquired about the practical use and effectiveness of precious metals and other payment methods for entities of a state's size.

Mr. Cavatoni responded that Mr. Gromen accurately addressed the need to reduce bond exposure and add gold to portfolios. He explained that in the current economic climate, bonds and equities are correlating similarly, failing to diversify risk and instead increasing portfolio risk.

Mr. Cavatoni mentioned that state-level plans have had some success in reallocating assets, though progress is limited due to restrictions on owning commodities. If these entities can move beyond the commodity bucket to hedge inflation and other concerns, a close to 5% allocation to gold has been observed. This allocation typically involves two primary instruments: physical gold, stored either in the London system or in a local vault, and financial instruments, primarily exchange-traded funds (ETFs).

He noted that these allocations usually range from 3% to 5%, but getting plans to adopt these measures is challenging due to their general reluctance to hold commodities. The World Gold Council works with these plans to overcome these obstacles, emphasizing the importance of physical gold and financial instruments in achieving these goals.

Mr. Gromen acknowledged Mr. Cavatoni's point about moving away from bonds, highlighting the uniqueness of the current period. Historically, when people moved away from bonds, bond prices would fall, interest rates would rise, and eventually, interest rates would reach a level where investors felt compensated for the risk of sovereign instruments. This was evident in the early eighties in the United States when Paul Volcker raised rates significantly to combat inflation.

However, Mr. Gromen pointed out a key difference between now and the early eighties: at that time, the U.S. debt-to-GDP ratio was around 25-30%, allowing Volcker to raise rates without jeopardizing U.S. solvency. In contrast, the current high debt-to-GDP ratio means that the U.S. cannot raise rates to the same extent without risking financial instability. Although the U.S. cannot technically go insolvent, high interest expenses relative to receipts can trigger market tests of its financial health.

Mr. Gromen explained that this situation bodes well for gold. As investors move away from bonds, the price of gold increases. While rising interest rates could theoretically attract investors back to bonds, the U.S. cannot allow rates to rise beyond a certain point without causing market dysfunction, as seen when the 10-year treasury approaches 5%. Policymakers' likely response will be to print more dollars to manage interest expenses, fueling a self-perpetuating cycle that supports higher gold prices.

Mr. Gromen concluded by reinforcing Mr. Cavatoni's point, emphasizing the long-term positive outlook for gold in this unique economic environment.

Mr. Cavatoni highlighted the significance of central bank purchases of gold, emphasizing that this trend has persisted for 14 years. He noted that the demand for gold, particularly from central banks, has been record-setting for three consecutive years, accounting for a quarter of the overall demand. The World Gold Council tracks supply and demand on a quarterly basis, underscoring the importance of these trends.

Mr. Cavatoni explained that this increased demand for gold is not solely due to concerns about the weaponization of the dollar but also reflects worries about U.S. fiscal challenges. Survey results indicate that central banks are apprehensive about the U.S.'s fiscal health, given the ongoing monetary policy issues and the fiscal challenges discussed by both presidential candidates. He concluded by questioning whether there is an effective playbook to address these problems, as many countries remain uncertain about potential solutions.

Mr. Gromen remarked on the consistent approach of industrial policy, whether under Trump or Biden, noting that both administrations have engaged in deficit-financed industrial policy. He acknowledged the discomfort that central banks and other entities might feel regarding this approach, given the associated fiscal challenges.

Representative Ivory expressed continued interest in the discussion, referring to the concept of a "Minsky moment"—a point at which financial instability leads to a market collapse. He inquired whether such a scenario could be in the cards, asking for an explanation of what it might look like and how the current unsustainable situation could persist and what the potential risks and outcomes might be if it ultimately collapses.

Mr. Gromen emphasized that the risk of a financial collapse is very high, but it is crucial to frame it correctly. Many market participants he interacts with still think in terms of past bubbles, like the dot-com bubble or the subprime mortgage crisis. He explained that in 2000, the stock bubble burst and, instead of facing deflation and working through it, the problem was shifted to the housing market. When the housing bubble burst, the issue was again kicked upstairs to the sovereign level, with the U.S. government and other global governments backstopping the financial system.

The key difference this time, Mr. Gromen noted, is that while entities like pets.com, Lehman Brothers, and the subprime mortgage market couldn't print dollars, the U.S. government can and likely will. When faced with tough choices like reducing defense spending or cutting entitlements, the government is more likely to print money. He highlighted the impracticality of simply cutting spending, explaining that the U.S. is running 7% of GDP deficits even at full employment. To reduce this to 3%, it would require cutting four points of GDP, which would mean slashing entitlements and defense by 25-30% immediately. Such cuts would be politically unfeasible and would likely plunge the economy into a severe recession, worsening the deficit instead of improving it.

Mr. Gromen pointed out that during the Great Financial Crisis, a 3% decline in GDP nearly collapsed the financial system. Cutting four points of GDP to reduce the deficit would likely trigger a severe recession, causing deficits to rise significantly. This situation underscores concerns from central banks about the U.S. fiscal situation. Mr. Gromen said that unless there are miraculous technological advancements or other highly improbable events, high inflation and sustained negative real interest rates appear to be the only viable solution. He concluded that the markets are beginning to realize that weakening the dollar significantly is the only way out.

Mr. Freeman offered some concluding remarks. He began by illustrating the concept of purchasing power using historical examples. He held up a $20 gold coin from 1929, explaining that it retained its value better than the equivalent amount of paper money. He then showed a 9 million mark note from Weimar Germany, emphasizing its worthlessness, and a $100 trillion note from Zimbabwe in 2008, highlighting

how hyperinflation can render currency nearly useless. Mr. Freeman mentioned that during the 2008 financial crisis, Zimbabwe's stock market soared as people sought to escape their failing currency.

Mr. Freeman offered these examples from his book, which he brought copies of for anyone interested. Mr. Freeman expressed that his passion is helping states like Utah, Kansas, Louisiana, South Carolina, and Texas. He shared a "treasure map" distributed at the Texas Republican convention and described his book as a straightforward, non-technical read that covers essential economic concepts. The book has sold 10,000 copies and has been well-received.

Mr. Freeman clarified that he is not in the gold or silver business but in education. His role has been to educate the Defense Department about economic risks and to share his knowledge through various media outlets. He stressed that he does not profit from selling gold or silver, and he is offering his book for free to those interested.

Mr. Freeman believes that Utah is uniquely positioned to protect its government and citizens from economic challenges. He questioned why average citizens shouldn't have the opportunity to buy and use gold, especially since central banks are doing so. The U.S. Constitution allows for this, and Mr. Freeman expressed that he sees it as a matter of economic justice.

He mentioned Jason Cozens, who, inspired by Mr. Freeman's book, traveled to the U.S. to collaborate on implementing relevant technology. Together, they have met with various state officials to promote their ideas.

Mr. Freeman emphasized that the issue transcends partisanship, noting that in Texas, the initiative had more Democratic sponsors than Republican ones. He praised the combination of empathy and factual analysis in addressing economic justice, urging bipartisan cooperation to benefit Americans.

5. Other Items/Adjournment

Treasurer Oaks closed the meeting. The next meeting will be held on June 26 in the Capitol Board Room and online.

Representative Ivory noted that there is a lot to unpack from the day's discussions. Looking ahead, he emphasized the importance of figuring out how to process and apply this information for Utah. He suggested creating a shared space, like a Google Document, where everyone could input their ideas, thoughts, and questions. This collaborative approach would help them mull over the implications for Utah. He concluded by expressing his gratitude to everyone for their participation and contributions.